

TREASURY DEPARTMENT

Washington

Statement of W. Randolph Burgess, Deputy to the Secretary of the Treasury, before the Subcommittee on Federal Reserve Matters of the Banking and Currency Committee of the Senate, March 29, 1954

Mr. Chairman and Members of the Committee:

I welcome this opportunity to appear before you to discuss the important subject of gold.

This Committee is considering bills which raise three questions of gold policy. S. 2332 would put the United States back on the gold standard as we knew it prior to 1933. S. 13 and S. 2364 would establish a domestic free market for gold, and the fourth bill, S. 2514, involves, among other things, the question of an increase in the official price for gold. It is appropriate that the Congress should examine these questions.

Various aspects of these questions were reviewed by Sub-Committees of the Joint Committee on the Economic Report under Senator Douglas in 1949-1950 and Congressman Patman in 1952.

From the founding of our nation until 1933, with interruptions in time of serious war, the dollar was firmly attached to gold. The gold value of the dollar, established under Washington and Hamilton, was not changed, except fractionally, for over 140 years. The confidence in the value of the dollar which this helped instill in our people and the people of other countries was one of the foundations of the Nation's spectacular economic success.

All business life depends on the making of promises, commitments and their fulfillment. Lending and borrowing money, contracts to buy and sell goods and services, savings and investments all depend on confidence that money will keep its value. When this confidence is broken, as we have seen in so many countries, the economic life is disorganized and retarded.

The solid link between the dollar and gold is a valuable heritage. Fundamentally, of course, the confidence of the people in their money must lie in their faith that their government will conduct itself efficiently and prudently -- that all of its policies, and particularly its budgetary and fiscal and monetary arrangements, will be honest and competently conducted. Nevertheless, a fixed relationship between gold and the currency of a country gives an added element of confidence and security.

In recent years the link between the dollar and gold has represented a basic stable relationship in an unstable world economy. Economic values the world over have been measured in terms of the United States dollar.

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Our Present Gold Policy

Now, I should like to review just what our present gold policy is, and how it got that way.

You will recall that in the banking holiday in March, 1933 we stopped redeeming currency in gold, and in April, under emergency legislation, the public was required to surrender gold coin and gold bullion to the Government.

The Agricultural Adjustment Act of May, 1933 gave the President power to alter the gold content of the dollar. Under emergency authority a series of increases in the price of gold was made. The Gold Reserve Act of 1934 in effect confirmed the previous emergency actions and gave the Secretary of the Treasury broad powers in buying and selling gold and issuing regulations with respect to gold. Thereupon the President, in January 1934, established the dollar value of gold at \$35 per ounce, an increase of 69 percent from the value maintained for over 140 years.

Since January 1934 there has been no change in the official price of gold. The President's power to change the gold content of the dollar lapsed in 1943. The Bretton-Woods Act of 1945 in substance terminated the power of the Secretary of the Treasury to buy or sell gold at other than the established price of \$35 an ounce.

Under present laws and regulations this country is on what may be termed an international gold bullion standard. We buy and sell gold freely with other countries through their central banks and treasuries at the price of \$35 an ounce, plus or minus a handling charge of one-fourth of one percent.

We do not coin gold. We do not allow our citizens to hold gold except in industry and the arts and as jewelry, or collectors' items. Individuals and businesses cannot export gold without license. Our citizens can buy gold dust but have shown little interest in doing so.

Our rules governing our citizens in these matters are basically similar to those of other countries with developed economies. There is no one of these countries where the central bank or treasury redeems its currency freely in gold coin, though in a number of countries the citizens can buy gold in a so-called "free market", at whatever price it may be available.

Since the removal of unnecessary restrictions on the citizen is a steadfast objective of this administration, we are reviewing the regulations concerning gold, in an endeavor to find ways in which we may reduce the administrative burdens which they impose on individuals and firms. We hope that present conditions in the world's economy will permit us to publish soon certain simplifications of the gold regulations, which I believe will be welcomed, although they will not involve any modification of our general gold policy.

The object of our policy and regulations is to protect our gold reserves, which support the value of money and can be used to settle international balances. The United States holds \$22 billion of gold out of the world's monetary stock of gold of \$36 billion. This huge stock of gold is a bulwark for confidence in the value of currency. In a world of great uncertainties it is one of the anchors of value on which business transactions depend.

It has been said sometimes that the gold in Fort Knox and other Mint institutions is idle and useless. Nothing could be less true. This gold is the legal reserve of the Federal Reserve System against its deposits and currency in circulation. The knowledge all over the world that the United States dollar has back of it this stock of gold coupled with the intention and the assured ability to maintain a constant price of gold, is at least one firm basis for measuring world values. It is a major reason why the dollar can be used everywhere to settle international transactions.

In summary, this is our present gold policy: we are maintaining an assured ability to support a constant relationship between gold and the dollar -- a relationship which is as important to foreign countries as it is to us.

This continuing and unchanging link is, in fact, the most important part of our policy. It is more important than the redeemability of currency into gold. It is a point of stability in a world which sorely needs a stable basis upon which to build a secure and healthy international economy.

Changes in Policy Proposed by Bills

One of the questions raised by the bills before you is whether it is now wise to reduce the restrictions which we have maintained to protect this monetary reserve. Can we safely now run the risk of letting both our own people and people elsewhere draw down this gold freely and perhaps dissipate it so that the strength of our monetary reserves is impaired?

It is the position of the Treasury that it would not be wise now to take the risk of a major step in relaxing restraints. We still live in a very uncertain world. A large part of the world's new gold production has been vanishing into gold hoards and becoming unavailable for monetary reserves. Until the public temper is one of greater security, it would be unwise to expose our gold freely to the hoarder.

In making basic changes of policy, it is desirable to act courageously and firmly. But it is just as important to avoid acting prematurely. Premature moves invite the possibility of having to reverse the steps taken, perhaps under crisis conditions. And a retreat from an important advance can cause damage which far exceeds the benefits derived from the original advance.

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Since the end of the war the free world has experienced a series of crises. Some of these crises have been political in origin, arising out of the division between free nations and those dominated from Moscow. A state of international tension has been punctuated at intervals by physical aggression or the threat of aggression. Each of these attacks upon the security of the world has caused widespread political unrest and, as always, people all over the world have sought the safety of gold during such intermittent crises. I wish we were able to predict, today, that there would be no further disruptions of this sort. Unfortunately, we cannot make that prediction and a prudent government cannot act upon a basis of wishful thinking.

Other crises which have swept the world in recent years have been economic in origin. When severe, these crises have shaken the exchange rates of the countries concerned. Whether severe or not, they have put pressures on their gold reserves. The United States gold stock has been a focal point which feels the impact of these crises.

Mr. Chairman, with your permission, I will place in the record a table which shows by years the gold stock of the United States, and the required legal reserves of the Federal Reserve System, and also foreign holdings of bank balances or short-term investments in the United States which are potential claims on our gold.

TABLE I

U.S. GOLD RESERVE VS REQUIREMENTS AND POTENTIAL CLAIMS 1922-1953
(In millions of dollars)

<u>End of Year</u>	<u>U.S. Gold Reserves</u>	(A) <u>U.S. Required Gold Reserves</u>	(B) <u>Foreign Short-Term Dollar Balances 2/</u>	<u>Total of A and B</u>
1922	3,506	1,686	1,009	2,695
1923	3,834	1,652	997	2,649
1924	4,090	1,599	1,237	2,836
1925	3,985	1,558	1,193	2,751
1926	4,083	1,564	1,639	3,203
1927	3,977	1,624	2,591	4,215
1928	3,746	1,621	2,483	4,104
1929	3,900	1,611	2,673	4,284
1930	4,225	1,562	2,335	3,897
1931	4,052	1,781	1,304	3,085
1932	4,045	1,967	746	2,713
1933	4,012	2,166	392	2,558
1934	8,259 ^{1/}	2,729	670	3,399
1935	10,124	3,610	1,301	4,911
1936	11,422	4,101	1,623	5,724
1937	12,790	4,170	1,893	6,063
1938	14,591	5,099	2,158	7,257
1939	17,800	6,354	3,221	9,575
1940	22,042	7,897	3,938	11,835
1941	22,761	8,310	3,679	11,989
1942	22,739	9,997	4,205	14,202
1943	21,981	11,902	5,375	17,277
1944	20,631	14,350	5,820	20,170
1945	20,083	10,868	7,074	17,942
1946	20,706	10,731	6,481	17,212
1947	22,868	11,294	7,135	18,429
1948	24,399	11,894	7,756	19,650
1949	24,563	10,753	7,623	18,376
1950	22,820	11,005	9,222	20,227
1951	22,873	11,720	9,302	21,022
1952	23,252	12,055	10,731	22,786
1953	22,090	12,151	11,771	23,922
<u>1954, Jan. 31</u>	22,044	11,799	11,947	23,746

Footnotes on following page.

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TABLE I (Continued)

- 1/ Includes \$2,806 million, the increment resulting from the reduction in the weight of the gold dollar, January 1934.
- 2/ Data are based on three somewhat differing series, as follows:
 1922-1928, estimates based on 1929 figure, adjusted for previous years by changes in foreign banking claims on the United States as published by the Department of Commerce; 1929-1933, as reported to the Federal Reserve Bank of New York by banks in New York City; 1934-1953, as reported to the Treasury Department by banks in the United States. Data represent short-term dollar balances of foreign official and private institutions and of international organizations. For the period 1944-1953, holdings of U. S. Government securities maturing within 20 months after date of purchase are included.

SOURCES: Foreign Short-Term Dollar Balances: Department of Commerce, The United States in the World Economy; Board of Governors of the Federal Reserve System, Banking and Monetary Statistics; Monthly Treasury Bulletin and Federal Reserve Bulletin.

U.S. Gold Reserves and Required Gold Reserves: 1922-1941 Banking and Monetary Statistics

1942-1953 Federal Reserve Bulletin.

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As shown in Table I, between the end of World War II and the exchange rate adjustments of 1949, our gold reserves increased almost one-fourth, from twenty billion dollars to almost twenty-five billion dollars. The more realistic currency and price relationships which foreign countries achieved from the devaluations, and the added windfall from our large imports of goods after the fighting began in Korea -- as well as the support afforded by the continuing flow of American assistance and United States Government expenditures abroad -- caused foreign reserves to rise; so that our gold stock fell to twenty-two billion dollars by the middle of 1951.

Then, as foreigners again began to demand relatively more of our goods, they once more found it necessary to send us gold. Our reserves rose one and one-half billion dollars between August 1951 and April 1952.

There soon followed a substantial improvement in the economic stability of important countries overseas. This greater stability was reflected in a renewed outflow of gold from the United States. We have sold one and a half billion dollars worth of gold to foreign countries in the last eighteen months.

This ebb and flow of strength and confidence in foreign countries, which in large part accounted for these successive increases and decreases of our gold reserves, was reflected also in changes in the price of gold in markets throughout the world. This is shown in the second table which I should like to lay before the Committee.

TABLE II
FREE MARKET GOLD PRICES

(In \$ per fine ounce for bar gold, converted at free market rates of exchange)

<u>Date</u>	<u>Paris</u>	<u>Hong Kong</u>	<u>Beirut</u>
Dec. 31, 1947	—	52.06	—
Dec. 31, 1948	49.54	48.76	—
Dec. 31, 1949	46.30	40.18	41.63
May 31, 1950 (pre-Korea)	38.48	37.31	36.26
July 31, 1950 (post Korea)	43.39	44.59	39.14
Dec. 31, 1950	43.05	44.47	40.13
Dec. 31, 1951	41.38	42.71	39.00
Dec. 31, 1952	38.95	40.48	37.81
Dec. 31, 1953	35.62	37.25	35.87
Feb. 27, 1954	35.86	37.58	35.31

Taken from International Financial Statistics published by International Monetary Fund.

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The figures in this table, derived from publications of the International Monetary Fund, are for gold bars and you will note the fluctuations in price and the recent trend toward lower prices.

Prices for coins were higher. Even now, when conditions are more stable than at any time since the end of World War II, gold sovereigns are selling at the equivalent of about \$40 an ounce in various markets.

Another way of judging world psychology about gold is to observe the amount of new gold production which has been going into world monetary stocks as compared with the amount going into hoards or into industry and the arts. This is shown in Table III.

TABLE III

WORLD OFFICIAL GOLD RESERVES AND GOLD PRODUCTION

(Excluding Russia)

Gold at \$20.67 per ounce to 1933; \$35 beginning with 1934.
Partly estimated.

(Dollar amounts in millions)

Year ended Dec. 31	(1) Year-end Total	(2) Increase during year	(3) %	(4)	(5) New Pro- duction	(6) Column (2) as % of Col. (5)
1913	\$ 4,073				\$433	
1914	4,542	\$469	11.5)		412	113.8
1915	5,410	868	19.1)		443	195.9
)			
1916	5,872	462	8.5)	8-year	432	106.9
1917	6,481	609	10.4)	average	403	151.1
1918	6,816	335	5.2)	9.0%	373	89.8
)	p.a.		
1919	6,805	-11	- .2)		354	-3.1
1920	7,256	451	6.6)		332	135.8
1921	8,045	789	10.9)		330	239.1
)			
1922	8,415	370	4.6)		316	117.1
1923	8,608	193	2.3)		363	53.2
1924	8,904	296	3.4)		374	79.1
)			
1925	8,904	0	0.)		373	0.
1926	9,149	245	2.8)		379	64.6
1927	9,496	347	3.8)	11-year	380	91.3
)	average		
)	3.0%		
1928	9,966	470	4.9)	p.a.	382	123.0
1929	10,189	223	2.2)		382	58.4
1930	10,696	507	5.0)		401	126.4
)			
1931	10,996	300	2.8)		427	70.3
1932	11,566	570	5.2)		458	124.5
1933	11,589	23	.2)		469	4.9

TABLE III (Continued)

WORLD OFFICIAL GOLD RESERVES AND GOLD PRODUCTION
(Excluding Russia)

Gold at \$20.67 per ounce to 1933; \$35 beginning with 1934. Partly estimated.

(Dollar amounts in millions)

Year ended Dec. 31	(1) Year-end Total	(2) Increase during year	(3) %	(4)	(5) New pro- duction	(6) Col. (2) as % of Col. (5)
	\$	\$	%		\$	%
1934	21,685	10,096	87.1		823	1,226.7
1935	22,660	975	4.5)		883	110.4
1936	24,090	1,430	6.3)		972	147.1
)			
1937	25,990	1,900	7.9)	7-year	1,041	182.5
1938	26,160	170	.65)	average	1,137	15.0
1939	28,100	1,940	7.4)	5.3%	1,209	160.5
)	p.a.		
1940	29,870	1,770	6.3)		1,297	136.5
1941	31,100	1,230	4.1)		1,266	97.2
1942	32,170	1,070	3.4		1,126	95.0
)			
1943	33,000	830	2.7		872	95.2
1944	33,380	380	1.2)		777	48.9
1945	33,770	390	1.2)		739	52.8
)			
1946	34,120	350	1.0)	10-year	756	46.3
1947	34,550	430	1.3)	average	767	56.1
1948	34,930	380	1.1)	1.1%	798	47.6
)	p.a.		
1949	35,410	480	1.4)		833	57.6
1950	35,820	410	1.2)		858	47.8
1951	35,960	140	.4)		840	16.7
)			
1952	36,280	320	.9)		865	37.0
1953	36,706	426	1.2)		865 est.	49.2

Note: Gold reserves include international financial institutions.

Source of gold reserves and production data is Board of Governors of Federal Reserve System. Data on reserves for some years are subject to some statistical uncertainties and should be interpreted as approximations only.

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During periods of strict wartime controls, almost the whole of new production went into monetary reserves -- and, indeed, even more as many nations required their people to turn their gold into government stocks. At other times there has been great variation in the use of new gold. In 1951 only seventeen percent went into monetary reserves. In 1952 it was better -- thirty-seven percent -- and for 1953 it is estimated at forty-nine percent.

These facts demonstrate the powerful and capricious forces which could be focused upon any stock of gold coins or other forms of monetary gold permitted to circulate freely within the United States. If coins were circulated, they would be subject to the pull of demand from overseas sources -- a demand which would rise and fall with every political and economic turn of events.

In this connection, it should be noted from my first table that foreign countries and international institutions hold about \$12 billion in short-term dollar balances in this country. Under present circumstances, these balances constitute no danger to our economy, but in a different situation -- one in which gold could be drawn from the Treasury in unlimited amounts and hoarded or exported without limit, these balances could be troublesome.

Another fact emphasizes that underlying forces of instability still remain in the world. Except in the case of a few countries, international trade and payments are still hedged around by a multitude of administrative and political controls such as quotas, excessive tariffs, and exchange controls.

When more restrictions have been removed and convertibility has been restored at least among the principal currencies, we shall be freer to consider the return to gold redemption. If we were to try to force the pace by resuming gold payments before the foundations were more firmly laid through a continuation of recent policies toward sounder budget, credit and price practices, the gold released in this country might simply move out into hoards, and become the tool of the international speculator. Gold payments are the seal of approval of good money, and the free world has not yet gone far enough in the achievement of good money. It is doubtful whether the United States should consider gold redeemability of its currency until other major countries are ready and able to do likewise.

Free Gold Market

The same factors which make it unwise for us to return to a gold coin standard now also argue against the opening of a free gold market in the United States, which is recommended in two of the bills before the committee.

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Under such a free market there would be two alternatives: either the United States Government, with its \$22 billion in reserves, would stay out of the market, and we would have a gold price that fluctuated up and down depending upon the demand for a relatively small amount of new gold production; or the Government would stand ready to buy and sell gold at the official price to prevent fluctuations. The first alternative would tend in the opposite direction from our ultimate goal -- it would be in the direction of more instability instead of more stability. The second alternative would be, in effect, full convertibility of the currency into gold.

Price of Gold

Another bill before the Committee suggests that we increase the price of gold. We believe that such a move would be against the best interests of the United States and our foreign friends. An increase in the price, with the consequent upward revaluation of this country's gold stock, would be contrary to the program of maintaining stability in our economy. A revaluation of the gold stock could set in motion long-term inflationary forces through increases in the volume of money, and in additions to the reserves of the banking system, which would provide the basis for a large potential expansion of money and credit, out of proportion to the business volume.

Furthermore, such a move would upset a relationship which has been of great importance to ourselves and to the world. The value of the dollar is firmly linked to gold. With only one major change this has been true throughout the history of our country, under Administrations of both parties. Our people, and foreigners as well, have come to think of the dollar as a secure currency, steadfastly defined in terms of a specific amount of our basic monetary metal. This is a relationship which should not be disrupted. It would be a grievous error, particularly at a time when the world is achieving some element of stability, to open up the possibility that this nation was prepared to make periodic devaluations of its currency in terms of gold.

Progress Being Made

In spite of the instabilities and dangers which remain, the world is making progress. That is the final point I wish to make here today. The prospects for a stable free world economy are better today than they have been for a very long time. Step by step, in a countless number of ways, a healthier world economy is being constructed.

There has been a marked improvement in the underlying stability of the free world economy. Many countries have improved their balance of payments, strengthened their monetary reserves, and continued to increase their production.

All of this is happening quietly and without fanfare. Economic collapse makes good headlines, but the road back to good money and economic health is usually less dramatic. We are therefore likely to be unaware of how much forward progress is being made until long after the event.

Nevertheless, if we look carefully at the record of the last year, we are able to find many reasons for optimism. Many steps forward -- none of them world-shaking but each of them a step in the right direction-- have taken place.

Discriminations against dollar goods have been reduced, and in one case at least, eliminated. Recent moves have been made to reduce the complexity of arrangements with regard to sterling, the guilder and the Deutsche mark. General markets for the sale and purchase of important commodities have been re-opened. In many countries, internal finance has been brought under control, and international payments have been brought more nearly into balance.

Trade and payments, while still not so free as we would like, are freer than at any other time since the end of the war. Foreign countries have increased their gold and dollar balances by about 18 billion in the past four years. The need for United States aid is lessening. All of these developments bring us closer to the day when foreign countries will find their economies sufficiently stable to permit the convertibility of their currencies and the freer movement of commerce. These are goals which we are striving for. In the words of the Commission on Foreign Economic Policy, "convertible currencies constitute an indispensable condition for the attainment of world-wide multilateral trade and the maintenance of balanced trade in a relatively free market."

We are making progress. There is a firmer determination -- not everywhere, but in many important countries -- to turn away from the politically easy thing, and toward the economically necessary thing, in the conduct of national affairs. The determination to bring budgets under control, to avoid credit inflation, to look outward as well as inward -- these are progressing at a hopeful rate. If these developments can be encouraged and continued, they will pave the way for further stability and further relaxation of controls.